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Synetic Connects To 120,000 MDs; Medco Founder Wygod In Portal Race

Synetic 's attempt to build a computer communication channel for doctors will get a boost from access to 120,000 doctors already using the electronic practice management system of Medical Manager Corporation.

Synetic is purchasing its access to MDs through a $1.4 bil. stock exchange acquisition agreement with Medical Manager. **Synetic** is the business retained by Medco founder Marty Wygod when he left Merck following the merger of his pharmacy benefit management company into the drug manufacturer.

Medical Manager claims to have placements in more than 24,000 medical practices. Through a distribution network, Medical Manager has a sales and support staff of almost 2,000.

In the race to become the computer portal to the medical community, **Synetic** will try to use the existing practice management programs to offset the broad information channels and pharmaceutical company sponsorships available to other major entrants.

From Medco, Wygod carries a reputation with the investment community of an ability to carve out a valuable position in marketing and drug selection between drug companies and their customers.

That reputation gives Wygod credence and standing with the financial community and permits **Synetic** to make the stock exchange offer for an established medical records company.

Access to the computer screens and medical records of physician offices may offer another vantage point from which to control product choice. Merck-Medco has already alleged that control of prescribing practices is one of Wygod's goals.

Synetic 's announcement of the Medical Manager deal comes one week before the expiration of Wygod's non-compete agreement with Merck-Medco. The PBM sought unsuccessfully to block **Synetic**'s participation in the healthcare electronic business through an injunction based on its non-compete agreement with Wygod ("The Pink Sheet" April 19, p. 17).

Medical Manager already has links to drug formularies, using ProxyMed's managed care formulary database to support its prescription service. Through the database, the system "automatically alerts the physician if the prescribed drug is not in compliance with the primary insurance company's formulary," the company stated.

If a prescribed drug is not in compliance, the system presents therapeutic alternatives. The warning can be overridden, and the system "provides a space for physicians to explain the override." Medical Manger noted that "reports can also be generated which calculate a physician's

percentage of formulary compliance."

Medical Manager describes its current system as a passive link transmitting formulary information from managed organizations to practitioners.

The **Synetic** subsidiary CareInsite has maintained that it will remain a passive channel, staying "content-neutral." CareInsite says it will "not create our own content for physicians - this is the role of our payers and suppliers."

However, given Wygod's previous success with Medco, if his new company can get control of communications between payers and prescribers, it would be in a good position to leverage that position to drug companies and other suppliers (such as clinical labs) to make sure that their products and services are included on lists of selected care.

In a recent description of CareInsite strategy, the company said that it intends to "contract with key payers and suppliers to make patient-specific rules available to physicians.

The **Synetic**-Medical Manager merger is expected to close before the end of September and will involve an exchange of .625 shares of **Synetic** common stock for every share of Medical Manager stock. A collar formula creates a $42 value for each share of Medical Manager stock.

Wygod will serve as chairman of the combined company. **Synetic**'s current management will remain in place with the addition of Medical Manager Chairman and CEO Michael Singer as vice chairman and co-CEO and Medical Manager President John Kang as co-CEO.

Synetic will also pursue its initial public offering for its CareInsite subsidiary, which it estimates could raise $104 mil. **Synetic** President and CEO John Suthern will serve in the same positions at CareInsite.

Unsuccessful in court against Wygod, Merck-Medco is pursuing a competing physician records business, AHT of Tarrytown, N.Y., as a counterbalance to **Synetic** . AHT maintains that its computerized physician service includes automated prescription processing. "Using electronic prompts and patient education materials, the application proactively improves formulary compliance, reduces adverse drug reactions and increases patient compliance," AHT states.

A pilot involving 200 physicians affiliated with Merck-Medco is expected to begin this summer in four metropolitan areas. The year-long test is designed to evaluate whether AHT's internet-based system helps physicians "improve the quality, compliance and convenience of prescription writing," the company states.

To allow the company to focus on the prescription writing system, AHT sold its physician management business to PractiCare, a subsidiary of Phoenix Home Life Mutual Insurance Company, for $3.1 mil. and the assumption of some obligations.

AHT has one approach to the software business which fits Merck's pharmaceutical pedigree. The company is pursuing a patent position in the electronic prescription management area based on two patents issued in March 1998.

AHT sued ProxyMed in late April of this year alleging infringement of the patents. The ProxyMed suit also is an indirect move against **Synetic** because of the incorporation of ProxyMed software with the Medical Manager system.

ProxyMed responded that the "patents in the suit cover only specific features of an online prescription system which are not essential to system operation." The company further maintained that "it is clear that the

specific functionality that is covered by their patents is not offered in any of our software products."

Merck-Medco also has an indirect way to block another of **Synetic**'s efforts to test electronic prescription programs.

Synetic's subsidiary CareInsite cannot begin testing electronic **prescription** communication services for one **New** York payer, Group Health Incorporated, until Merck-Medco gives its okay.

According to a May 17 CareInsite filing with the Securities & Exchange Commission, Merck-Medco had not given that okay.

Arrayed against Merck-Medco and **Synetic**/Medical Manager are a large number of major technology companies betting that success in the physician market will depend more on platform and technology alliances than on positions within the current medical community.

WebMD, for example, is flexing its alliances with the May 20 announcement of merger plans with Healtheon. The companies report "strategic relationships with more than 50 companies in the technology and health care industries."

The new company will be called Healtheon/WebMD but operate under the WebMD brand name. In a May 20 teleconference, the companies said that the merged entity would use WebMD's marketing agreements as the entry into physicians offices, and rely on Healtheon for e-commerce platforms. WebMD CEO Jeff Arnold will head the combined company.

WebMD alliances include promotion agreements with the internet search sites Lycos and Excite and television promotions and web links with CNN.

The company's biggest agreement with a drug company is with DuPont for the supply of health information to WebMD's consumer site and for funding six million member months of subscriptions for doctors ("The Pink Sheet" April 12, p. 24).

Healtheon/WebMD's product would offer billing verification, supply purchasing and lab order services. WebMD also offers physicians continuing education. In March, AHT signed an agreement with WebMD to provide on-line laboratory transactions.

Healtheon, however, has a pending merger with MedE America for "healthcare transaction solutions." That merger will continue in parallel to the larger deal.

WebMD also has a commitment of free months from Microsoft, which is underwriting five million subscription months for doctors over five years (valued at $150 mil.). Microsoft will make a $250 mil. equity investment in WebMD, which will give it more than 10% ownership of the merged companies. Microsoft will have one of the nine board seats. The other eight seats will be split evenly between representatives of WebMD and Healtheon.